

**KEYSTONE
AREA EDUCATION AGENCY 1**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2010

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KEYSTONE AREA EDUCATION AGENCY 1

OFFICIALS

<i>NAME</i>	<i>TITLE</i>	<i>TERM EXPIRES</i>
Board of Directors		
Gary Gassett	President	2013
Merle Gaber	Vice President	2013
Francis Peterson	Member	2011
Walter Pregler	Member	2013
Robert Brown	Member	2011
John Ganshirt	Member	2011
Norman Miller	Member	2011
Bill Withers	Member	2013
John Perrenoud	Member	2013
Agency		
Robert Vittengl	Administrator	
Gary Stumberg	Director of Administrative Services	
Candace Brockmeyer	Board Secretary	
Audie Baumgartner	Business Manager	Indefinite
	Treasurer	



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements listed in the table of contents. These financial statements are the responsibility of Agency officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Keystone Area Education Agency 1 at June 30, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U. S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 11, 2010, on our consideration of Keystone Area Education Agency 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison, and Schedule of Funding Progress for the Retiree Health Plan information on pages 4 through 10 and 28 through 30 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keystone Area Education Agency 1's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U. S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Schnurr & Company, LLP

Fort Dodge, Iowa
November 11, 2010

KEYSTONE AREA EDUCATION AGENCY 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Keystone Area Education Agency 1 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the Agency's financial statements which follow.

2010 FINANCIAL HIGHLIGHTS

General Fund revenues in 2010 (FY10) were \$28,384,459 while General Fund expenditures for FY10 were \$26,980,529. Financing uses for FY10 were \$457,196. This resulted in an increase in the Agency's General Fund balance from \$2,110,142 in FY09 to \$3,056,876 in FY10, a 45% increase from the prior year.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the agency's financial activities.
- The Government-wide Financial Statements consist of a statement of net assets and a statement of activities. These provide information about the activities of Keystone Area Education Agency as a whole and present an overall view of the Agency's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Agency's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison of the Agency's budget for the year, and Supplementary Information provides detailed information about the non-major funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole

Government-wide Financial Statements

The Government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency's assets and liabilities. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Government-wide statements report the Agency's net assets and how they have changed. Net assets — the difference between the agency's assets and liabilities — are one way to measure the Agency's financial health or position.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the Agency's overall health, additional non-financial factors, such as changes in the Agency's property tax base and the condition of its facilities, need to be considered.

In the Government-wide financial statements, the Agency's activities consist of one category:

- *Governmental activities:* Most of the Agency's basic services are included here, such as regular and special education instruction, student and instructional staff support services, and administration. Local school districts, federal and state aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Agency's funds, focusing on its most significant or "major" funds-not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law or by bond covenants. The Agency establishes other funds to control and manage money for particular purposes, such as accounting for major construction projects or to show that it is properly using certain revenues, such as federal grants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

USING THIS ANNUAL REPORT (Continued)

Reporting the Agency as a Whole (Continued)

Fund Financial Statements (continued)

The Agency has one kind of fund:

- Governmental funds account for all of the Agency's basic services. These focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the Government-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The Agency's governmental funds include: 1) the General Fund, 2) the Special Revenue Fund, and 3) the Debt Service Fund.

The governmental funds required financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. Keystone Area Education Agency's net assets at the end of fiscal year 2010 totaled approximately \$4.3 million. The analysis that follows provides a summary of the Agency's net assets at June 30, 2010 for the governmental activities.

	Condensed Statement			
	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Current and other assets	\$ 7,504,294	\$ 6,575,004	\$ -	\$ -
Capital assets	4,192,581	3,968,199	-	-
Total assets	11,696,875	10,543,203	-	-
Long-term obligations	3,540,465	3,213,320	-	-
Other liabilities	4,967,280	3,074,980	-	-
Total liabilities	8,507,745	6,288,300	-	-
Net assets:				
Invested in capital assets, net of related debt	1,012,178	1,102,796	-	-
Restricted	426,872	443,148	-	-
Unrestricted	1,750,080	2,708,959	-	-
Total net assets	\$ 3,189,130	\$ 4,254,903	\$ -	\$ -

of Net Assets

Total Agency		Percentage
2009	2010	Change (%)
		2009-2010
\$ 7,504,294	\$ 6,575,004	(12.4)
4,192,581	3,968,199	(5.4)
11,696,875	10,543,203	(9.9)
3,540,465	3,213,320	(9.2)
4,967,280	3,074,980	(38.1)
8,507,745	6,288,300	(26.1)
1,012,178	1,102,796	9.0
426,872	443,148	3.8
1,750,080	2,708,959	54.8
\$ 3,189,130	\$ 4,254,903	33.4

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following analysis shows the changes in net assets for the year ended June 30, 2010:

	Changes in			
	Governmental Activities		Business-type Activities	
	2009	2010	2009	2010
Revenues:				
Program revenues:				
Charges for service	\$ 1,106,714	\$ 1,350,035	\$ -	\$ -
Operating grants and contributions	10,990,635	15,576,256	-	-
General revenues:				
Property taxes	5,882,076	6,001,872	-	-
State foundation aid	6,035,321	5,571,838	-	-
Unrestricted investment earnings	135,310	61,600	-	-
Total revenues	24,150,056	28,561,601	-	-
Program expenses:				
Instruction	256,544	166,815	-	-
Student support services	11,622,058	14,497,977	-	-
Instructional staff support services	6,643,135	7,128,770	-	-
General administration	2,985,477	3,003,234	-	-
Business administration	1,320,657	1,439,312	-	-
Plant operations and maintenance	905,531	1,035,062	-	-
Central and other support services	199	586	-	-
Community service operations	58,401	94,418	-	-
Interest on long-term debt	142,385	129,654	-	-
Total expenses	23,934,387	27,495,828	-	-
Increase in net assets	215,669	1,065,773	-	-
Net assets beginning of year	2,973,461	3,189,130	-	-
Net assets end of year	\$ 3,189,130	\$ 4,254,903	\$ -	\$ -

Net Assets

Total Agency		Percentage Change (%)
2009	2010	2009-2010
\$ 1,106,714	\$ 1,350,035	22.0
10,990,635	15,576,256	41.7
5,882,076	6,001,872	2.0
6,035,321	5,571,838	(7.7)
135,310	61,600	(54.5)
24,150,056	28,561,601	18.3
256,544	166,815	(35.0)
11,622,058	14,497,977	24.7
6,643,135	7,128,770	7.3
2,985,477	3,003,234	0.6
1,320,657	1,439,312	9.0
905,531	1,035,062	14.3
199	586	194.5
58,401	94,418	61.7
142,385	129,654	(8.9)
23,934,387	27,495,828	14.9
215,669	1,065,773	394.2
2,973,461	3,189,130	7.3
\$ 3,189,130	\$ 4,254,903	33.4

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Operating grants and contributions from local, state, and federal sources account for 55% of the total revenue. The Agency's expenses primarily relate to instruction and support services, which account for 79% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$28,561,601 and expenses were \$27,495,828.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As previously noted, Keystone Area Education Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The Agency's governmental funds reported a combined fund balance that increased from \$2,537,014 to \$3,500,024.

Governmental Fund Highlights

The financial position of the Agency improved at the end of FY'10 as a result of several different factors. However, it is important to note that following the 10% across the board cut approved by the Governor, State Foundation Aid and property tax revenues decreased by \$343,686 from the previous year. Counteracting the impact of the revenue loss was the receipt of approximately \$5.8 million in additional revenues as a result of the American Recovery and Reinvestment Act (ARRA). In addition, the Agency continued its effort to closely monitor and postpone spending in areas that might be considered discretionary in nature.

The federal funding of ARRA monies has served the Agency well as it has allowed the time and flexibility needed to analyze our current expenditure levels and to put into place a plan for the future. In addition, a portion of the ARRA funds have enabled the Agency to continue with its work to provide outstanding service to the schools in AEA 1. ARRA dollars, both directly and indirectly, allowed the Agency to explore and develop several key initiatives in special education and educational services, and to commit to some significant advances in technology.

Budgetary Highlights

The Agency's Board of Directors annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure level, not at the fund or fund type level. After required public notice and State Board review, the State Board either approves the budget or returns it with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board. Over the course of the year, the Agency amended its annual operating budget one time to reflect additional revenue and expenditures associated with the additional services needed and provided to the local school districts. A schedule showing the original and final budget amounts compared to the Agency's actual financial activity is included in the required supplementary information section of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

On June 30, 2010, the Agency had invested approximately \$3.96 million, net of accumulated depreciation, in a broad range of capital assets, including land, building, computers, Media lending library and audio-visual equipment. Keystone Area Education Agency had depreciation expense of \$446,112 in FY10 and total accumulated depreciation of approximately \$6.07 million on June 30, 2010. More detailed information about capital assets is available in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2010-11 school year will soon be underway and Keystone AEA is continually focused to the future. The Agency must continue to find answers to the ongoing issues that threaten the future stream of revenues. Enrollment dropped again last fall (2009) and our total enrollment was 450 students less than the previous year. We need to assume that declining enrollment will be a continuing dilemma and the Agency must be prepared to adjust expenditure levels accordingly.

The economic recession continues nation-wide, even though there have been some recent signs of growth. The 10% across the board cut was an extraordinary event for all AEA's in the State of Iowa; however, ARRA funding helped to cushion the impact of that legislated action. ARRA funding does disappear after the 2010-11 fiscal year so we must be prepared to provide future services within the framework of our existing revenues. We have begun the process of adjusting our staffing numbers to reflect similar ratios to when student numbers were much higher. The Agency also needs to continue to monitor discretionary spending, however, we cannot allow our purchasing of technology and other goods and services to become so backlogged that we find ourselves in a position where we cannot get caught up.

Of special importance next year will be the results of the collective bargaining process that will impact the increase in budgetary demands for FY'12. Although our staff needs to be competitively compensated, the Agency will need a favorable settlement in order to maintain current levels of service. Staff analysis will need to occur annually in order to maintain financial strength. The 2% allowable growth rate increase for next year will not provide an adequate revenue increase for Keystone AEA, especially considering the history of student enrollment decline in northeast Iowa and the potential for significant increases in insurance rates due to the Federal Healthcare Reform Act. The Agency must be exceptionally thoughtful and deliberate as plans are developed for the future.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Agency's citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office of Keystone Area Education Agency, 1400 2nd St N.W., Elkader, Iowa, 52043-9564.

KEYSTONE AREA EDUCATION AGENCY 1

BASIC FINANCIAL STATEMENT

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 5,034,923	\$ -	\$ 5,034,923
Receivables:			
Accounts	266,124	-	266,124
Due from other governments	1,247,716	-	1,247,716
Inventories	25,495	-	25,495
Prepaid expenses	746	-	746
Capital assets (net of accumulated depreciation)	3,968,199	-	3,968,199
Total assets	10,543,203	-	10,543,203
Liabilities			
Accounts payable	413,686	-	413,686
Salaries and benefits payable	2,141,847	-	2,141,847
Interest payable	20,019	-	20,019
Deferred revenue:			
Federal	294,431	-	294,431
Miscellaneous	204,997	-	204,997
Long-term liabilities			
Portion due or payable within one year:			
Capital leases	345,000	-	345,000
Early retirement obligation	18,785	-	18,785
Compensated absences	94,718	-	94,718
Portion due or payable after one year:			
Capital leases	2,520,403	-	2,520,403
Early retirement obligation	1,400	-	1,400
Compensated absences	142,517	-	142,517
Net OPEB liability	90,497	-	90,497
Total liabilities	6,288,300	-	6,288,300

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1**Exhibit A
(Continued)****STATEMENT OF NET ASSETS
June 30, 2010**

	Governmental Activities	Business-Type Activities	Total
Total Liabilities	\$ 6,288,300	\$ -	\$ 6,288,300
Net Assets			
Invested in capital assets, net of related debt	1,102,796	-	1,102,796
Restricted for:			
Debt service	443,148	-	443,148
Unrestricted	2,708,959	-	2,708,959
Total net assets	4,254,903	-	4,254,903
Total liabilities and net assets	\$ 10,543,203	\$ -	\$ 10,543,203

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and Contributions
Functions/Programs:			
Governmental Activities:			
Instruction	\$ 166,815	\$ -	\$ 166,251
Student support services	14,497,977	610,508	14,331,500
Instructional staff support services	7,128,770	270,373	946,786
General administration	3,003,234	-	-
Business administration	1,439,312	469,154	-
Plant operations and maintenance	1,035,062	-	-
Central and other support services	586	-	-
Community service operations	94,418	-	131,719
Interest on long-term debt	129,654	-	-
Total	\$ 27,495,828	\$ 1,350,035	\$ 15,576,256

General revenues:

Property taxes
State foundation aid
Unrestricted investment earnings

Change in net assets

Net assets beginning of year

Net assets end of year

See Notes to Financial Statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (564)	\$ -	\$ (564)
444,031	-	444,031
(5,911,611)	-	(5,911,611)
(3,003,234)	-	(3,003,234)
(970,158)	-	(970,158)
(1,035,062)	-	(1,035,062)
(586)	-	(586)
37,301	-	37,301
(129,654)	-	(129,654)
(10,569,537)	-	(10,569,537)
6,001,872	-	6,001,872
5,571,838	-	5,571,838
61,600	-	61,600
1,065,773	-	1,065,773
3,189,130	-	3,189,130
\$ 4,254,903	\$ -	\$ 4,254,903

KEYSTONE AREA EDUCATION AGENCY 1

Exhibit C

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2010

	Nonmajor Governmental		
	General	Funds	Total
Assets			
Cash	\$ 4,542,405	\$ 492,518	\$ 5,034,923
Receivables:			
Accounts	266,124	-	266,124
Due from other governments	1,247,716	-	1,247,716
Inventories	25,495	-	25,495
Prepaid expenditures	746	-	746
Total assets	\$ 6,082,486	\$ 492,518	\$ 6,575,004
Liabilities and Fund Balances			
Accounts payable	\$ 399,977	\$ 13,709	\$ 413,686
Salaries and benefits payable	2,126,205	15,642	2,141,847
Interest payable	-	20,019	20,019
Deferred revenue:			
Federal	294,431	-	294,431
Miscellaneous	204,997	-	204,997
Total liabilities	3,025,610	49,370	3,074,980
Fund balances:			
Reserved for:			
Inventories	25,495	-	25,495
Prepaid expenditures	746	-	746
Media materials	851	-	851
Educator quality	65,398	-	65,398
Teacher mentoring	4,988	-	4,988
Unreserved:			
Undesignated	2,959,398	443,148	3,402,546
Total fund balances	3,056,876	443,148	3,500,024
Total liabilities and fund balances	\$ 6,082,486	\$ 492,518	\$ 6,575,004

See Notes to Financial Statements.

RECONCILIATION OF THE BALANCE SHEET--

GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2010

Total governmental fund balances (page 14) \$ 3,500,024

*Amounts reported for governmental activities in the
Statement of Net Assets are different because:*

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$10,038,269 and the accumulated depreciation is \$6,070,070.

3,968,199

Long-term liabilities, including capital leases, compensated absences and other postemployment benefits, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,213,320)

Net assets of governmental activities (page 12)

\$ 4,254,903

See Notes to Financial Statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES -- GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	Nonmajor Governmental		
	General	Funds	Total
Revenues:			
Local sources	\$ 7,418,063	\$ -	\$ 7,418,063
State sources	6,712,828	177,142	6,889,970
Federal sources	14,253,568	-	14,253,568
Total revenues	28,384,459	177,142	28,561,601
Expenditures:			
Current:			
Instruction	15,861	150,390	166,251
Student support services	14,506,428	-	14,506,428
Instructional staff support services	7,067,781	39	7,067,820
General administration	2,986,234	12,784	2,999,018
Business administration	1,573,761	619	1,574,380
Plant operations and maintenance	735,638	9,576	745,214
Central and other support services	586	-	586
Community service operations	94,240	-	94,240
Debt service	-	444,654	444,654
Total expenditures	26,980,529	618,062	27,598,591
Excess (deficiency) of revenues over (under) expenditures	1,403,930	(440,920)	963,010
Other financing sources (uses):			
Transfers in	3,734	460,930	464,664
Transfers out	(460,930)	(3,734)	(464,664)
Total financing sources (uses)	(457,196)	457,196	-
Excess of revenues and other financing sources over expenditures and other financing uses	946,734	16,276	963,010
Fund balances, beginning of year	2,110,142	426,872	2,537,014
Fund balances, end of year	\$ 3,056,876	\$ 443,148	\$ 3,500,024

See Notes to Financial Statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES --
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

Net change in fund balances - total governmental funds (page 16) \$ 963,010

*Amounts reported for governmental activities in the
statement of activities are different because:*

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the estimated useful lives of the assets. Depreciation expense exceeded capital outlay in the current year as follows:

Expenditures for capital assets	\$ 352,046	
Depreciation expense	(446,112)	(94,066)

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources	(130,316)
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Repayment of long-term debt principal is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	315,000
--	---------

Compensated absence, early retirement, and other postemployment benefit expense reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental funds.	12,145
--	--------

Change in net assets of governmental activities (page 13)	\$ 1,065,773
--	---------------------

See Notes to Financial Statements.

KEYSTONE AREA EDUCATION AGENCY 1

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Keystone Area Education Agency 1 is an intermediate school corporation established to identify and serve children who require special education. The Agency also provides media services and education support services. These programs and support services are provided to 25 school districts and private schools in an eight-county area. The Agency is governed by a Board of Directors whose members are elected on a non-partisan basis.

The Agency's financial statements are prepared in conformity with U. S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For financial reporting purposes, Keystone Area Education Agency 1 has included all funds, organizations, agencies, boards, commissions and authorities. The Agency has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Agency are such that exclusion would cause the Agency's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Agency to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Agency. The Keystone Area Education Agency 1 has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation:

Government-wide financial statements: The Statement of Net Assets and the Statement of Activities report information on all of the activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the Agency's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (continued):

Government-wide financial statements (continued): The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Unrestricted interest income and other items not properly included among program revenues are reported instead as general revenues.

Fund financial statements: Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The Agency reports the following major governmental fund:

The General Fund is the general operating fund of the Agency. All general revenues and other revenues that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

C. Measurement Focus and Basis of Accounting:

The Government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days after year-end.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity:

Cash: Cash includes amounts in demand deposits, money market funds and certificates of deposit.

Inventories: Inventories are stated at cost using the first-in, first-out method and consist of expendable supplies and materials. The cost of these items is recorded as an expenditure at the time of consumption.

Capital assets: Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the Agency as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

Property, furniture and equipment are depreciated using the straight-line method of depreciation over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	25
Improvements other than buildings	20
Furniture and equipment	5-20
Library books	5

Salaries and benefits payable: Payroll and related expenses for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Deferred revenue: Deferred revenue represents an excess of cash advances by the funding source over accrued expenditures at year-end.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities and Fund Equity (continued):

Compensated absences: Agency employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability has been recorded in the Statement of Net Assets representing the Agency's commitment to fund non-current compensated absences. This liability has been computed based on rates of pay in effect at June 30, 2010. The compensated absences liability attributable to the governmental activities will be paid primarily by the General and Special Revenue Funds.

Long-term liabilities: In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund balances: In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted net assets: In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Note 2. Cash and Pooled Investment

The Agency's deposits in banks at June 30, 2010 were entirely covered by Federal depository insurance or by the state sinking fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Directors; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The Agency's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Agency.

NOTES TO FINANCIAL STATEMENTS

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 343,373	\$ -	\$ -	\$ 343,373
Total capital assets not being depreciated	343,373	-	-	343,373
Capital assets being depreciated:				
Buildings	5,624,750	-	143,763	5,480,987
Improvements other than buildings	93,000	-	-	93,000
Furniture and equipment	882,451	188,351	261,373	809,429
Library books	3,373,014	163,695	225,229	3,311,480
Total capital assets being depreciated	9,973,215	352,046	630,365	9,694,896
Less accumulated depreciation for:				
Buildings	2,875,289	181,684	62,106	2,994,867
Improvements other than buildings	58,590	4,185	-	62,775
Furniture and equipment	655,107	61,443	235,237	481,313
Library books and films	2,535,021	198,800	202,706	2,531,115
	6,124,007	446,112	500,049	6,070,070
Total capital asset being depreciated, net	3,849,208	(94,066)	130,316	3,624,826
Governmental activities capital assets, net	\$ 4,192,581	\$ (94,066)	\$ 130,316	\$ 3,968,199

Depreciation expense was charged to functions of the Agency as follows:

Governmental activities:

Student support services	\$ 4,438
Instructional staff support services	205,692
General administration	3,940
Business administration	33,121
Plant operations and maintenance	198,921

**Total governmental activities
depreciation expense**

\$ 446,112

NOTES TO FINANCIAL STATEMENTS

Note 4. Changes in Long-term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Capital leases	\$ 3,180,403	\$ -	\$ 315,000	\$ 2,865,403	\$ 345,000
Early retirement obligation	51,313	-	31,128	20,185	18,785
Compensated absences	229,280	89,853	81,898	237,235	94,718
Net OPEB liability	79,469	11,028	-	90,497	-
	<u>\$ 3,540,465</u>	<u>\$ 100,881</u>	<u>\$ 428,026</u>	<u>\$ 3,213,320</u>	<u>\$ 458,503</u>

Capital leases: The Agency is obligated under a lease accounted for as a capital lease. Fixed assets under a capital lease included in buildings totaled \$4,687,173 at June 30, 2010. The lease matures May 1, 2017 and requires interest at an interest rate of 4.25%. The following is a schedule of future minimum lease payments required under the capital lease as of June 30, 2010:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 345,000	\$ 118,167	\$ 463,167
2012	360,000	95,642	455,642
2013	310,000	88,523	398,523
2014	325,000	75,242	400,242
2015	335,000	61,323	396,323
2016 and later years	1,190,403	81,103	1,271,506
Total	<u>\$ 2,865,403</u>	<u>\$ 520,000</u>	<u>\$ 3,385,403</u>

Payments under the agreement for the year ended June 30, 2010, including interest of \$129,654, totaled \$444,654.

Early retirement obligation: The Agency offered a voluntary early retirement plan to its employees that was discontinued effective June 30, 2006. Eligible employees must have completed at least fifteen years of full-time service to the Agency and must have reached the age of fifty-five on or before June 30 in the calendar year in which early retirement commences. The application for early retirement is subject to approval by the Board of Directors. Early retirement benefits are equal to 20% of the employee's regular contractual salary in effect during the employee's last year of employment, with additional benefits available related to unused sick leave days and health insurance. Early retirement benefits will be paid in four equal installments in January and June in the years following the start of retirement. Health insurance benefits will be paid for up to five consecutive years after retirement or until the employee's 65th birthday, whichever comes first. At June 30, 2010, the Agency has obligations to ten participants with a total liability of \$20,185. Actual early retirement expenditures for the year ended June 30, 2010 totaled \$31,128.

NOTES TO FINANCIAL STATEMENTS

Note 5. Operating Leases

The Agency has leases for copiers and other related equipment that have been classified as operating leases and accordingly, all rents are charged to expenditures as incurred. The leases expire on dates ranging from June 2012 through June 2015.

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2010.

<u>Year Ending June 30,</u>	<u>Amount</u>
2011	\$ 108,877
2012	107,077
2013	81,264
2014	63,495
2014	2,100
Thereafter	-
	<u>\$ 362,813</u>

Total rental expenditures for the year ended June 30, 2010 for all operating leases, except those with terms of a month or less that were not renewed, was \$115,653.

Note 6. Pension and Retirement Benefits

The Agency contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Agency is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Agency's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 was \$921,532, \$867,375 and \$778,900, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB)

Plan description: The Agency operates a single-employer retiree benefit plan that provides medical and prescription drug benefits for retirees and their spouses. There are 259 active and 25 retired members in the plan. Participants must be age 55 or older at retirement.

The coverage is provided through a fully insured plan with Wellmark. Retirees under age 65 pay the same premium for the coverage as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding policy: The contribution requirements of plan members are established and may be amended by the Agency. The Agency currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB cost and net OPEB obligation: The Agency's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Agency, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Agency's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the Agency's net OPEB obligation:

Annual required contribution	\$ 138,166
Adjustments to annual required contribution	(127,138)
Annual OPEB cost	11,028
Contributions made	-
Increase in net OPEB obligation	11,028
Net OPEB obligation beginning of year	79,469
Net OPEB obligation end of year	\$ 90,497

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2010.

For the year ended June 30, 2010, the Agency contributed \$1,552,892 to the plan. Plan members eligible for benefits contributed \$426,892 to the plan.

NOTES TO FINANCIAL STATEMENTS

Note 7. Other Postemployment Benefits (OPEB) (Continued)

Annual OPEB cost and net OPEB obligation (continued): The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
June 30, 2010	\$ 11,028	12.19%	\$ 90,497

Funded status and funding progress: As of July 1, 2008, the most recent actuarial valuation date for the period July 1, 2009 through June 30, 2010, the actuarial accrued liability was \$1.023 million, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.023 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$14,047,000, and the ratio of the UAAL to covered payroll was 7.28 %. As of June 30, 2010, there were no trust fund assets.

Actuarial methods and assumptions: Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Agency's funding policy. The projected annual medical trend rate is 6.0%.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial report as of June 30, 2007 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

Note 8. Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Agency assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

KEYSTONE AREA EDUCATION AGENCY 1

REQUIRED SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1**STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN BALANCES -- BUDGET AND ACTUAL
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUND****Required Supplementary Information****Year Ended June 30, 2010**

	Governmental Fund Types Actual	Proprietary Fund Types Actual	Total Actual
Revenues:			
Local sources	\$ 7,418,063	\$ -	\$ 7,418,063
State sources	6,889,970	-	6,889,970
Federal sources:	14,253,568	-	14,253,568
Total revenues	28,561,601	-	28,561,601
Expenditures/Expenses:			
Current:			
Instruction	166,251	-	166,251
Student support services	14,506,428	-	14,506,428
Instructional staff support services	7,067,820	-	7,067,820
General administration	2,999,018	-	2,999,018
Business administration	1,574,380	-	1,574,380
Plant operations and maintenance	745,214	-	745,214
Central and other support services	586	-	586
Community service operations	94,240	-	94,240
Debt service	444,654	-	444,654
Total expenditures/expenses	27,598,591	-	27,598,591
Excess (deficiency) of revenues over (under) expenditures/expenses	963,010	-	963,010
Balance, beginning of year	2,537,014	-	2,537,014
Balance, end of year	\$ 3,500,024	\$ -	\$ 3,500,024

See accompanying Independent Auditor's Report.

Budget		Final to Actual Variance - Favorable (Unfavorable)
Original	Final	
\$ 7,262,172	\$ 7,418,824	\$ (761)
8,083,325	6,908,344	(18,374)
8,399,589	14,649,434	(395,866)
23,745,086	28,976,602	(415,001)

701,460	190,991	24,740
10,397,877	14,703,648	197,220
6,032,659	7,920,490	852,670
2,946,895	3,158,155	159,137
2,367,317	1,328,493	(245,887)
901,200	907,911	162,697
2,821	1,100	514
87,170	116,982	22,742
444,673	444,673	19
23,882,072	28,772,443	1,173,852

(136,986)	204,159	758,851
1,558,635	2,537,014	-
\$ 1,421,649	\$ 2,741,173	\$ 758,851

KEYSTONE AREA EDUCATION AGENCY 1
June 30, 2010

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

The Agency's Board of Directors annually prepares a budget on a basis consistent with U. S. generally accepted accounting principles. Although the budget document presents functional disbursements by fund, the legal level of control is at the total expenditure/expense level, not by fund. After required public notice and hearing in accordance with the Code of Iowa, the Board submits its budget to the State Board of Education. The State Board reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the State Board for final approval. The budget may be amended during the year utilizing procedures prescribed by the State Board.

KEYSTONE AREA EDUCATION AGENCY 1**Schedule of Funding Progress for the Retiree Health Plan (In Thousands)****Required Supplementary Information**

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
2009	7/1/2008	\$ -	\$ 1,023	\$ 1,023	0.00%	\$ 13,459	7.60%
2010	7/1/2008	-	1,023	1,023	0.00%	14,047	7.28%

OTHER SUPPLEMENTARY INFORMATION

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 1

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010

		<div>Special Revenue</div> <div>Juvenile</div> <div>Home</div>			<div>Debt</div> <div>Service</div>		<div>Total</div>	
Assets								
Cash		\$	29,351	\$	463,167	\$	492,518	
Total assets		\$	29,351	\$	463,167	\$	492,518	
Liabilities and Fund Balances								
Liabilities:								
Accounts payable		\$	13,709	\$	-	\$	13,709	
Interest payable			-		20,019		20,019	
Salaries and benefits payable			15,642		-		15,642	
Total liabilities			29,351		20,019		49,370	
Fund balances:								
Unreserved, undesignated fund balance			-		443,148		443,148	
Total liabilities and fund balances		\$	29,351	\$	463,167	\$	492,518	

See Accompanying Independent Auditor's Report.

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2010**

	Special Revenue		
	Juvenile	Debt	
	Home	Service	Total
Revenues:			
State sources	\$ 177,142	\$ -	\$ 177,142
Total revenues	177,142	-	177,142
Expenditures:			
Current:			
Instruction	150,390	-	150,390
Instructional staff support services	39	-	39
General administration	12,784	-	12,784
Business administration	619	-	619
Plant operations and maintenance	9,576	-	9,576
Debt service	-	444,654	444,654
Total expenditures	173,408	444,654	618,062
Excess (deficiency) of revenues over (under) expenditures	3,734	(444,654)	(440,920)
Other financing sources (uses):			
Transfers in (out)	(3,734)	460,930	457,196
	(3,734)	460,930	457,196
Excess of revenues and other financing sources over expenditures	-	16,276	16,276
Fund balances beginning of year	-	426,872	426,872
Fund balances end of year	\$ -	\$ 443,148	\$ 443,148

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1**SCHEDULE OF REVENUES BY SOURCE AND
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
For the Last Ten Years**

	2010	2009	2008	2007
Revenues:				
Local	\$ 7,418,063	\$ 7,176,257	\$ 7,027,608	\$ 6,699,556
State	6,889,970	7,639,313	6,864,814	5,721,745
Federal	14,253,568	9,334,486	8,366,891	8,719,971
Total	\$ 28,561,601	\$ 24,150,056	\$ 22,259,313	\$ 21,141,272
Expenditures				
Instruction	\$ 166,251	\$ 254,911	\$ 638,042	\$ 377,243
Student support services	14,506,428	11,588,519	9,783,157	9,337,230
Instructional staff support services	7,067,820	6,575,140	5,934,985	5,720,022
General administration	2,999,018	2,969,745	2,985,714	2,872,640
Business administration	1,574,380	1,286,058	1,383,903	1,294,592
Plant operations and maintenance	745,214	757,033	726,456	725,009
Central and other support services	586	199	625	576
Community service operations	94,240	58,770	83,388	87,292
Facilities acquisition and construction	-	-	-	-
Special education support services	-	-	-	-
Media services	-	-	-	-
Education services	-	-	-	-
Debt service	444,654	432,385	413,950	462,950
Total expenditures	\$ 27,598,591	\$ 23,922,760	\$ 21,950,220	\$ 20,877,554

See accompanying Independent Auditor's Report.

Schedule 3

Modified Accrual Basis					
Years Ended June 30,					
2006	2005	2004	2003	2002	2001
\$ 6,552,694	\$ 6,402,127	\$ 6,135,625	\$ 5,926,165	\$ 5,692,600	\$ 5,752,762
5,175,879	4,923,883	4,891,443	5,588,592	5,503,191	6,084,755
8,870,515	8,502,948	7,665,784	6,644,135	5,714,781	4,669,090
\$ 20,599,088	\$ 19,828,958	\$ 18,692,852	\$ 18,158,892	\$ 16,910,572	\$ 16,506,607
\$ 294,653	\$ 121,543	\$ 117,248	\$ 94,162	\$ 82,528	\$ 70,750
9,438,835	9,322,347	8,422,985	7,666,455	11,754,658	-
5,699,278	5,402,081	5,624,220	5,242,624	3,540,505	-
3,005,570	2,979,545	2,691,044	2,618,878	621,985	-
1,192,424	758,353	571,982	476,412	234,492	-
671,528	630,566	768,618	565,719	138,345	-
2,421	192,599	296,276	320,905	266,429	-
85,828	-	-	-	-	-
127,727	-	-	-	-	16,832
-	-	-	-	-	11,857,183
-	-	-	-	-	1,543,146
-	-	-	-	-	2,471,296
453,513	361,701	345,683	363,047	349,448	336,636
\$ 20,971,777	\$ 19,768,735	\$ 18,838,056	\$ 17,348,202	\$ 16,988,390	\$ 16,295,843

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect:			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
Special Education Cluster (IDEA):			
Special Education - Grants to States:	84.027		
Parent-Educator Connection		97401	\$ 131,719
IDEA - Part B 2009-2010		091001	5,668,368
IDEA - Part B - LEA Flow-Through 2009-2010		8K79-01	1,757,136
			<u>7,557,223</u>
Special Education - Preschool Grants:	84.173		
Parent-Educator Connection		97401	<u>3,338</u>
QPPS Verification Site Visits	84.173	072810	<u>3,300</u>
Section 619 Project	84.173	09619-01	<u>233,975</u>
Secondary Professional Development	84.323	SPDG-01	<u>68,886</u>
Special Education - Grants for Infants and Families:	84.181		
Parent-Educator Connection		97401	<u>2,042</u>
IDEA - Part C Project - 2009-2010	84.181	C09-01	<u>203,768</u>
Vocational Ed - Basic Grants to States	84.048A		<u>190,641</u>
Title III - English Language Acquisition	84.365	ELA 10-0312	<u>54,145</u>
Reading First	84.357		<u>921</u>
Enhancing Education Through Technology	84.318		<u>36,576</u>

(Continued on next page)

KEYSTONE AREA EDUCATION AGENCY 1

Schedule 4
(Continued)SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2010

Project Title	CFDA Number	Pass-through Grantor's Number	Expenditures
Indirect (Continued):			
U. S. Department of Education:			
Passed-through Iowa Department of Education:			
ARRA - Special Education Grants to States, Recovery Act (Part B Section 611)	84.391	RKB1	\$ 1,775,668
ARRA - Special Education Preschool Grants, Recovery Act (Part B LEA)	84.391	RKB2	3,843,701
ARRA - (Part B Section 619)	84.392	R619-01	142,351
ARRA - (Part C)	84.393	RC-01	55,729
ARRA - Educator Quality Professional Development	84.394		6,652
Passed-through an Iowa LEA:			
Title II, Part A	84.367		21,861
U. S. Department of Health and Human Services:			
Passed-through Iowa Department of			
Medicaid Reimbursement:			
Medicaid Direct Services	93.778		52,791
			\$ 14,253,568

Basis of Presentation: The Schedule of Expenditures of Federal Awards includes the federal grant activity of Keystone Area Education Agency 1 and is presented on the modified accrual basis. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying Independent Auditor's Report.

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Keystone Area Education Agency 1
Elkader, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Keystone Area Education Agency 1 (the "Agency"), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements listed in the table of contents, and have issued our report thereon dated November 11, 2010. We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. We identified no deficiencies in internal control over financial reporting that we consider to be significant deficiencies or material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Agency's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Agency. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Agency's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency, and other parties to whom the Agency may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 11, 2010

KEYSTONE AREA EDUCATION AGENCY 1

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**



SCHNURR & COMPANY, LLP

Certified Public Accountants and Consultants

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Board of Directors of
Keystone Area Education Agency 1
Elkader, Iowa

Compliance

We have audited the compliance of Keystone Area Education Agency 1 (the "Agency") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Agency's major federal programs are identified in Part 1 of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with U. S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in the Agency's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, detected and corrected on a timely basis. We identified no deficiencies in internal control over compliance.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We identified no significant deficiencies or material weaknesses in internal control over compliance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we expressed our conclusions on the Agency's responses, we did not audit the Agency's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the Agency and other parties to whom the Agency may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 11, 2010

KEYSTONE AREA EDUCATION AGENCY 1

Schedule of Findings and Questioned Costs Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) No significant deficiencies in internal control over financial reporting were disclosed.
- (c) The audit did not disclose any noncompliance that is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings that are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were:
 - Clustered programs:
 - CFDA Number 84.027 – Special Education – Grants to States
 - CFDA Number 84.173 – Special Education – Preschool Grants
 - CFDA Number 84.391 – ARRA – Special Education Grants to States, Recovery Act
 - CFDA Number 84.392 – ARRA – Special Education Preschool Grants, Recovery Act
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Keystone Area Education Agency 1 qualified as a low-risk auditee.

Part II: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

Part III: Findings and Questioned Costs For Federal Awards:

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

No matters were noted.

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-10 Budget: Expenditures during the year ended June 30, 2010 did not exceed the amounts budgeted.
- IV-B-10 Questionable Expenditures: No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-C-10 Travel Expense: No expenditures of Agency money for travel expenses of spouses of Agency officials or employees were noted.
- IV-D-10 Business Transactions: No business transactions between the Agency and Agency officials or employees were noted.
- IV-E-10 Bond Coverage: Surety bond coverage of Agency officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that coverage is adequate for current operations.
- IV-F-10 Board Minutes: No transactions requiring Board approval were noted which had not been approved.
- IV-G-10 Deposits and Investments: The Agency complied with the provisions of Chapters 12B and 12C of the Code of Iowa.
- IV-H-10 Certified Annual Report: The Certified Annual Report (CAR) was certified timely with the Department of Education. However, we noted one difference between the CAR and the audited trial balance.

Recommendation – We recommend the CAR be amended going forward to properly reflect the difference as noted above.

Response – We will address this difference and amend the CAR filings as necessary.

Conclusion – Response accepted.

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2010

IV-I-10 Categorical Funding: No instances were noted of categorical funding used to supplant rather than supplement other funds.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Keystone Area Education Agency 1 during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Schnarr & Company, LLP

Fort Dodge, Iowa
November 11, 2010